

**DEPARTMENT OF AVIATION
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEARS ENDED
JUNE 30, 1998 and 1999**

***AUDITOR OF
PUBLIC
ACCOUNTS***



COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Department of Aviation for the years ended June 30, 1998 and 1999, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in internal controls; and
- no instances of noncompliance with applicable laws and regulations that are required to be reported under Government Auditing Standards.

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AGENCY OFFICIALS

February 7, 2000

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Aviation** for the years ended June 30, 1998 and 1999. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of Aviation's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of Aviation's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Allocations
Expenditures
Revenues

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether Aviation's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

Aviation's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that Aviation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Aviation records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Report Distribution and Exit Conference

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

We discussed this report with management at an exit conference held on February 7, 2000.

AUDITOR OF PUBLIC ACCOUNTS

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AGENCY BACKGROUND AND FINANCIAL HIGHLIGHTS

Aviation consists of the Director's Office and four divisions: Airport Services, Public Relations and Promotion, Flight Operations and Safety, and Finance and Administration. The Director's Office and its four divisions plan and promote aviation in the Commonwealth; license aircraft and airports; and provide financial and technical assistance to eligible sponsors for the planning, development, and improvement of airports and airport facilities. Aviation also provides air transportation services to the Governor, the Legislature, and state agencies.

The Director's Office has responsibility for policy, air service development, and human resources. Staff evaluate commercial airline service patterns, service levels, and demand data to help airport sponsors and local jurisdictions' efforts to enhance domestic and international air service. Aviation staff also monitor the impact of federal regulatory activity on Virginia's airports and serve as the legislative liaison.

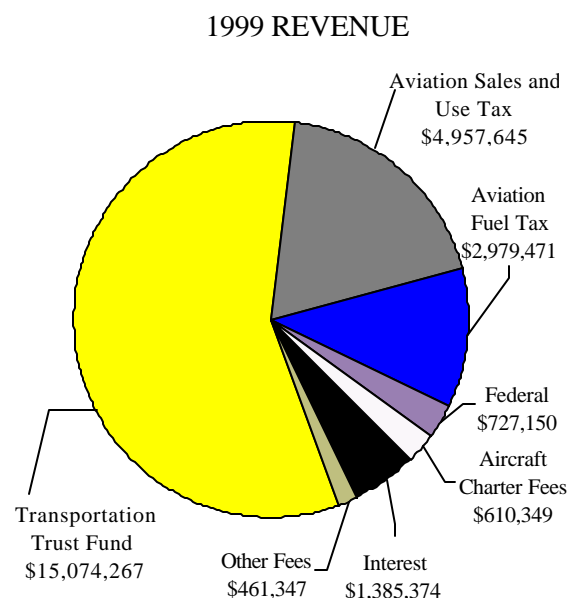
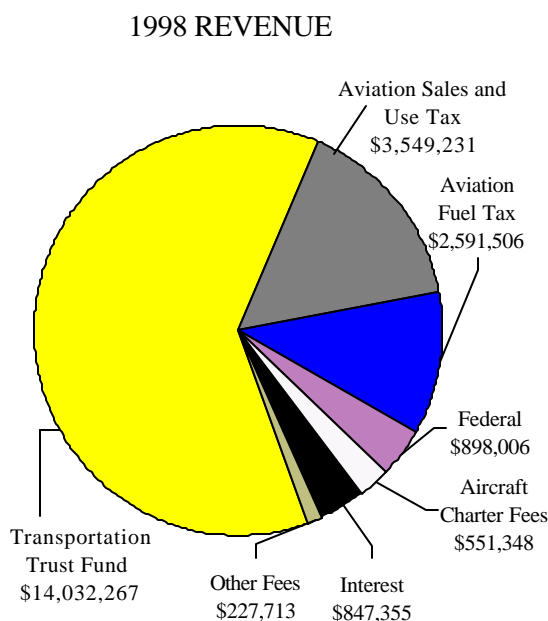
The Division of Airport Services provides technical services to airport sponsors. These services include providing airport master planning and environmental assessment through engineering, design, and construction of all components of airport facilities and navigational and weather equipment.

The Public Relations and Promotion Division promotes Virginia's airports. The Division develops market plans, produces publications, holds educational and aviation awareness programs, participates at trade shows, and licenses aircraft.

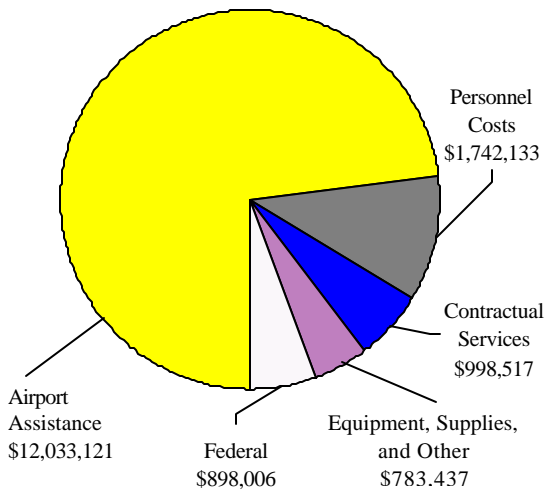
The Flight Operations and Safety Division monitors and reports on aviation-related accidents to the Virginia Aviation Board. The Division maintains, operates, and schedules all state-owned aircraft.

The Finance and Administration Division provides financial and administrative support to Aviation. This support includes developing the budget, keeping the accounting records, purchasing goods and services, and coordinating communication and information technology.

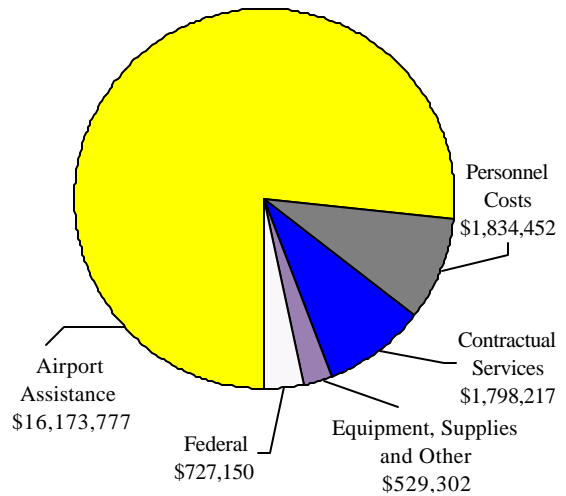
The majority of Aviation's revenues come from the Transportation Trust Fund and special taxes collected by other state agencies. The following charts depict these revenues and expenses for 1998 and 1999:



1998 EXPENSES



1999 EXPENSES



In fiscal 1998 and 1999, Aviation also received \$246,160 and \$272,411 respectively, in General Fund appropriations to fund the Governor's aircraft usage. However, based on the Governor's usage, Aviation only spent \$23,847 and \$47,064 for this purpose.

Commonwealth Airport Fund

Aviation receives 2.4 percent of the Commonwealth's Transportation Trust Fund revenues and follows statutory requirements for its allocation. The statute designates the following allocation of the funds for the period July 1, 1995 through June 30, 2000.

Any funds in excess of \$12.1 million, which are available for allocation from the Transportation Trust Fund, shall be allocated 60 percent to the Metropolitan Washington Airports Authority (MWAA) up to a maximum amount of \$2 million; and 40 percent to air carrier airports as entitlements. The \$12.1 million is divided as follows:

- 40 percent to air carrier airports, except those owned or leased by MWAA, based on the number of passengers. No air carrier airport sponsor shall receive less than \$50,000 or more than \$2 million per year. No air carrier airport sponsor, excluding MWAA, shall receive fewer funds than it received in fiscal year 1994-95. Currently, there are seven airports that qualify for this funding. These airports receive semi-annual payments.
- 40 percent to air carrier and reliever airports on a discretionary basis, with airports receiving funding on a cost reimbursement basis.
- 20 percent to general aviation airports on a discretionary basis, with airports receiving funding on a cost reimbursement basis.

When requesting state funds, airports must indicate the intended use of the money. Aviation evaluates, prioritizes, and submits recommendations to the Virginia Aviation Board for final revision and approval. Uncommitted funding carries forward to the next fiscal year for future projects.

Aviation Special Fund

This fund includes collections by the Department of Motor Vehicles for aviation fuel taxes, the Department of Taxation for aircraft sales and use taxes, and Aviation for various department fees. These revenues pay Aviation's administrative expenses and provide funding for local airport maintenance and airport system planning, regulation, and safety. Effective in fiscal 1998, Aviation was able to earn interest for its special funds. Aviation paid \$375,000 from this fund to the Washington Airports Task Force in accordance with the Appropriation Act.

DEPARTMENT OF AVIATION
Richmond, Virginia

Kenneth Wiegand, Director

AVIATION BOARD MEMBERS

George P. Ramsey, III, Chairman

C. H. Byler	Robert H. Neitz
John G. Dankos, Jr.	Jeanne H. Pedigo
John V. Mazza, Jr.	William H. Smith

Emmitt F. Yeary